

CHELSEA DISTRICT LIBRARY
Washtenaw County, Michigan

AUDITED FINANCIAL REPORT

For the Fiscal Year Ended December 31, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Chelsea District Library	County Washtenaw
Audit Date 12/31/04	Opinion Date 2/17/05	Date Accountant Report Submitted to State: 4/11/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Post, Smythe, Lutz and Ziel, LLP			
Street Address 1034 West Ann Arbor Trail		City Plymouth	State MI
Accountant Signature <i>David R. Williams CPA</i>		ZIP 48170	Date 4/11/05

CHELSEA DISTRICT LIBRARY
For the Year Ended December 31, 2004

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FINANCIAL SECTION

POST, SMYTHE, LUTZ AND ZIEL LLP

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Independent Auditor's Report

February 17, 2005

To the Board of Trustees
Chelsea District Library
Washtenaw County, Michigan

We have audited the accompanying financial statements of the governmental activities, and each major fund of Chelsea District Library as of and for the year ended December 31, 2004 which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Chelsea District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Chelsea District Library as of December 31, 2004, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Library has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of December 31, 2004.

Board of Trustees
Chelsea District Library
February 17, 2005

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Chelsea District Library's basic financial statements. The accompanying required supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The required supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully,

Post, Smythe, Lutz & Ziel

POST, SMYTHE, LUTZ and ZIEL LLP
Certified Public Accountants

Management's Discussion and Analysis

As management of Chelsea District Library, we offer readers of Chelsea District Library's financial statements this narrative overview and analysis of the financial activities of Chelsea District Library for the fiscal year ended December 31, 2004.

Financial Highlights

- The assets of Chelsea District Library exceeded its liabilities at the close of the most recent fiscal year by \$1,352,607 (*net assets*). Of this amount, \$764,759 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, Chelsea District Library's governmental funds reported combined ending fund balances of \$8,599,293, an increase of \$7,880,930 in comparison with the prior year. Approximately 9% of this total amount, \$778,545 is *available for spending* at the district library's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$778,545.
- Chelsea District Library's total debt increased by \$8,094,542 during the current fiscal year, due primarily to the issuance of the 2004 Library Building and Site Bonds.
- The District Library did repay the loan for the purchase of 121 Orchard Street in the amount of \$135,000.
- Liabilities include a) PTO (Paid Time Off) amounts that may be cashed in (up to a district library defined limit) at the employees discretion and b) employees may utilize medical care reimbursement accounts before full investment, up to the amount declared each year and within a library defined limit.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Chelsea District Library's basic financial statements. Chelsea District Library's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Chelsea District Library's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of Chelsea District Library's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Chelsea District Library is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of Chelsea District Library that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of Chelsea District Library are limited to operating the Library. The District Library has no business-type activities.

The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Chelsea District Library, like other state and local governments, used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Chelsea District Library are categorized as governmental funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Chelsea District Library maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the 2004 Library

Building and Site Capital Project Fund which are considered to be major funds.

Chelsea District Library adopts an annual appropriated budget for its general fund, and a budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13-23 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Chelsea District Library, assets exceeded liabilities by \$1,352,607 at the close of the most recent fiscal year.

Current and Other Assets	\$ 9,707,266
Capital Assets	992,100
Total Assets	<u>10,699,366</u>
Long-term Liabilities	8,238,786
Other Liabilities	1,107,973
Total Liabilities	<u>9,346,759</u>
Net Assets:	
Invested in Capital Assets	
net of related debt	272,640
Restricted	315,208
Unrestricted	764,759
Total Net Assets	<u>\$ 1,352,607</u>

A significant portion of Chelsea District Library's net assets (20 percent) reflects its investment in capital assets (e.g., land, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding. Chelsea District Library used these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although Chelsea District Library's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of Chelsea District Library's net assets (23 percent) represents resources that are subject to external restrictions on how they may be used. The remaining, and largest portion of *unrestricted net assets* (\$764,759) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Chelsea District Library is able to report positive balances in all three categories of net assets. The same situation held true for the prior fiscal year. The government's net assets increased by \$403,548 during the current fiscal year as shown in the table below, which will be comparative in fiscal year ending 2005:

Program Revenues:	
Charges for Services	\$ 28,117
Operating Grants & Contributions	52,991
Capital Grants & Contributions	272,951
General Revenues:	
Property Taxes	1,046,764
Unrestricted Investment Earnings	64,830
Total Revenues	<u>1,465,653</u>
Program Expenses:	
Public Library	1,053,515
Interest on Long-Term Debt	8,590
Total Expenses	<u>1,062,105</u>
Change in Net Assets	<u>\$ 403,548</u>

Governmental activities. All of the District Library's activities are "governmental".

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. Nonrecurring costs were realized in relation to fund raising costs for the capital campaign as well as building planning activities. Income (and pledges of forthcoming income) was realized from this capital campaign.

Financial Analysis of the Government's Funds

As noted earlier, Chelsea District Library used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of Chelsea District Library's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing Chelsea District Library's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, Chelsea District Library's governmental funds reported combined ending fund balances of \$8,599,293 an increase of \$7,880,930 in comparison with the prior year. The largest component of the total governmental fund balance is the \$7,505,540 (87.3%) maintained by the 2004 Library Building and Site Capital Projects Fund. These resources are restricted to pay for the costs associated with the project.

The general fund is the chief operating fund of Chelsea District Library. At the end of the current fiscal year, unreserved fund balance of the general fund was \$778,545.

Other than initial expenses toward the building project, there were no significant capital expenditures. The fund balance of Chelsea District Library's general fund increased by \$372,669 during the current fiscal year, as revenues exceeded operating expenses. Of the excess revenue, \$272,951 was received through the capital campaign in support of the building project; the remaining \$99,718 excess revenue is to be invested with the capital contingency fund for use in the building project.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were only \$8,413, and represented minor changes to the original spending plan.

Capital Asset and Debt Administration

Capital assets. Chelsea District Library's investment in capital assets for its governmental activities as of December 31, 2004, amounts to \$992,100 (net of accumulated depreciation). This investment in capital assets includes land, buildings and equipment. The investment increased by \$617,160 (net of depreciation expense), primarily due to construction expenses associated with the 2004 Library Building and Site Program.

Details to the District's capital assets are continued in the notes to the financial statements on page 20.

Long-term debt. At the end of the current fiscal year, Chelsea District Library had total long term debt outstanding of \$8,238,786, all of which comprises debt backed by the full faith and credit of the government. Additional information on Chelsea District Library's long-term debt can be found in note IV.C. on pages 21 and 22.

Economic Factors and Next Year's Budgets and Rates

The Chelsea District Library voter adopted millage rate for general operating purposes (1.75) was reduced again by the Headlee Amendment rollback to 1.66905. As the library is not yet in its planned facility, the available library millage is larger than current needs. The library levied 1.63 for use in 2004. These factors were considered in preparing Chelsea District Library's budget for the 2005 fiscal year, therefore the millage rate for fiscal year 2005 remains at 1.63.

Requests for Information

This financial report is designed to provide a general overview of Chelsea District Library's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chelsea District Library Director.

BASIC FINANCIAL STATEMENTS

CHELSEA DISTRICT LIBRARY

Statement of Net Assets

December 31, 2004

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 1,003,239
Investments	7,766,885
Receivables:	
Pledges	884,575
Interest	35,922
Prepaid Expenditures	16,645
Capital Assets (Net of Accumulated Depreciation)	992,100
Total Assets	<u>10,699,366</u>
<u>LIABILITIES</u>	
Accounts Payable	63,525
Accrued Liabilities	14,295
Deferred Revenue	1,030,153
Non Current Liabilities:	
Due within one year	40,000
Due in more than one year	8,198,786
Total Liabilities	<u>9,346,759</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, net of related debt	272,640
Restricted for:	
Debt Service	2,721
Other	39,536
Capital Projects	272,951
Unrestricted	764,759
Total Net Assets	<u>\$ 1,352,607</u>

CHELSEA DISTRICT LIBRARY
Statement of Activities
For the Year Ended December 31, 2004

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Assets Governmental Activities</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary Government:					
Governmental Activities:					
Public Library	\$ 1,053,515	\$ 25,396	\$ 52,991	\$ 272,951	\$ (702,177)
Interest on Long-Term Debt	8,590	2,721	-	-	(5,869)
Total Governmental Activities	<u>1,062,105</u>	<u>28,117</u>	<u>52,991</u>	<u>272,951</u>	<u>(708,046)</u>
General Revenues:					
Property Taxes					1,046,764
Unrestricted Investment Earnings					<u>64,830</u>
Total General Revenues and Transfers					<u>1,111,594</u>
Change in Net Assets					403,548
Net Assets - Beginning					<u>949,059</u>
Net Assets - Ending					<u>\$ 1,352,607</u>

CHELSEA DISTRICT LIBRARY**Balance Sheet****Governmental Funds****December 31, 2004**

	General	2004 Library Building and Site Capital Project Bond Fund	Other Governmental Funds (Debt Service)	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 584,779	\$ 415,739	\$ 2,721	\$ 1,003,239
Investments	669,988	7,096,897	-	7,766,885
Accrued Interest Receivable	-	35,922	-	35,922
Prepaid Expenditures	16,645	-	-	16,645
Total Assets	\$ 1,271,412	\$ 7,548,558	\$ 2,721	\$ 8,822,691
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts Payable	\$ 20,507	\$ 43,018	\$ -	\$ 63,525
Deferred Revenue	145,578	-	-	145,578
Accrued and Other Liabilities	14,295	-	-	14,295
Total Liabilities	180,380	43,018	-	223,398
Fund Balances:				
Reserved for:				
Capital Projects	\$ -	\$ 7,505,540	\$ -	\$ 7,505,540
Debt Service	-	-	2,721	2,721
Reserved for Designated Gifts:				
Belser Memorial Fund	2,151	-	-	2,151
Friends & Volunteers Fund	30,611	-	-	30,611
Christy Gutekunst Memorial Fund	1,724	-	-	1,724
Children's Area Fund	5,050	-	-	5,050
Capital Campaign Fund	272,951	-	-	272,951
Unreserved:				
Designated:				
Capital Contingency Fund	463,148	-	-	463,148
Technology Improvement	100,000	-	-	100,000
Undesignated	215,397	-	-	215,397
Total Fund Equity	1,091,032	7,505,540	2,721	8,599,293
Total Liabilities and Fund Equity	\$ 1,271,412	\$ 7,548,558	\$ 2,721	

Amounts reported for governmental activities in the statement of net assets are difference because:

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Net Assets of Governmental Activities

992,100

(8,238,786)

\$ 1,352,607

CHELSEA DISTRICT LIBRARY
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General	2004 Library Building and Site Capital Project Bond Fund	Other Governmental Funds (Debt Service)	Total Governmental Funds
Revenues				
Property Taxes	\$ 1,046,764	\$ -	\$ -	\$ 1,046,764
State Aid	12,302	-	-	12,302
Penal Fines	27,972	-	-	27,972
Circulation Fines	12,736	-	-	12,736
Charges for Services	6,800	-	-	6,800
Interest	8,426	56,405	-	64,831
Donations-Collections	512	-	-	512
Donations-Other	12,204	-	-	12,204
Donations-Capital Campaign	272,951	-	-	272,951
Other	5,860	-	-	5,860
	<u>1,406,527</u>	<u>56,405</u>	<u>2,721</u>	<u>1,465,653</u>
Expenditures				
Wages	458,016	-	-	458,016
FICA	33,760	-	-	33,760
Fringe Benefits	30,919	-	-	30,919
Collection Expense	116,892	-	-	116,892
Advertising	9,583	-	-	9,583
Banking Fees	221	-	-	221
Board Expenses	2,508	-	-	2,508
Capital Campaign	31,171	-	-	31,171
Capital Outlay	19,953	527,472	-	547,425
Computer Upgrades	3,816	-	-	3,816
Copier	7,124	-	-	7,124
Insurance	17,657	-	-	17,657
Maintenance	1,710	-	-	1,710
Memberships	3,697	-	-	3,697
Newsletter	15,621	-	-	15,621
Postage	3,277	-	-	3,277
Printing	333	-	-	333
Professional Services	53,466	-	-	53,466
Program Events	16,526	-	-	16,526
Debt Service	8,590	135,030	-	143,620
Promotional Publication	6,782	-	-	6,782
Rent	120,576	-	-	120,576
Small Equipment	4,346	-	-	4,346
Supplies	19,094	-	-	19,094
Telecommunications	14,256	-	-	14,256
TLN Automation and Co-Op	20,169	-	-	20,169
Travel	10,503	-	-	10,503
Utilities	3,292	-	-	3,292
Total Expenditures	<u>1,033,858</u>	<u>662,502</u>	<u>-</u>	<u>1,696,360</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>372,669</u>	<u>(606,097)</u>	<u>2,721</u>	<u>(230,707)</u>
Other Financing Sources (Uses)				
Proceeds of Long Term Debt	-	8,111,637	-	8,111,637
Net Change in Fund Balances	372,669	7,505,540	2,721	7,880,930
Fund Balances - Beginning	718,363	-	-	718,363
Fund Balances - Ending	<u>\$ 1,091,032</u>	<u>\$ 7,505,540</u>	<u>\$ 2,721</u>	<u>\$ 8,599,293</u>

CHELSEA DISTRICT LIBRARY
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2004

Amounts reported for governmental activities in the statement of activities (page 9) are different because:

Net change in fund balances - total governmental funds (page 11) \$ 7,880,930

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 617,160

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

This amount is the net effect of these differences in the treatment of long-term debt and related items. (8,094,542)

Change in net assets in governmental activities (page 9) \$ 403,548

CHELSEA DISTRICT LIBRARY
Notes to Financial Statements
December 31, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Chelsea District Library was formed in 1998 by the Village of Chelsea (now the City of Chelsea) , and Dexter, Lima, Lyndon, and Sylvan Townships when they entered into a District Library Agreement. Under the terms of the agreement, these municipalities agreed that the District Library should serve their residents but that the residents must approve the formation of the District Library by adopting an operating millage that would be sufficient to pay the expenses of the library serving this population. This millage was approved on October 5, 1999 by the residents of the newly established Chelsea District Library.

The Chelsea District Library serves the residents of the City of Chelsea, and Lyndon and Sylvan Township in their entirety. It also serves residents of Lima and Dexter Township that are also residents of the area served by Chelsea Schools as well as residents of the Pinckney School District in Dexter Township.

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14, "The Financial Reporting Entity," the financial statements of the Chelsea District Library contain all the Library's funds, account groups and authorities for which the Library is financially accountable and the nature and significance of their relationship with the District Library are such that exclusion would cause the Library's financial statements to be misleading or incomplete.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Major individual governmental funds are reported as separate columns in the fund financial statements.

CHELSEA DISTRICT LIBRARY
Notes to Financial Statements
December 31, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

Governmental Funds

The Library reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The 2004 Library Building and Site Capital Project Fund account for the resources from the bond proceeds for construction of the new building, renovation of the old structure, and site improvements.

The Library has a single non major fund, which is the 2004 Library Building and Site Debt Service Fund.

Restricted Resources

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as needed.

CHELSEA DISTRICT LIBRARY
Notes to Financial Statements
December 31, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the Library to invest in obligations of the U.S. Treasury, commercial paper of certain investment grades, and deposits of Michigan commercial banks.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

The Library had no trade or taxes receivables as of December 31, 2004, nor inter fund loans or advances.

3. Capital Assets

Capital assets, which include property, plant, equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to

CHELSEA DISTRICT LIBRARY
Notes to Financial Statements
December 31, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities and Net Assets or Equity - Continued

3. Capital Assets - Continued

the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, equipment and furniture of the Library are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15-30
Equipment and Furniture	3-15

4. Compensated Absences

Under current policy set by the District Library Board, certain individual employees have a vested right to receive payments for unused vacation, sick leaves and other benefits under formulas and conditions specified in the contracts. A liability for these amounts is reported in the governmental funds only if they are paid. The long term portion of these amounts are reported as a liability in the Statement of Net Assets. Management has determined that the liability at December 31, 2004 is \$13,786.

5. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Statement of Net Assets.

CHELSEA DISTRICT LIBRARY
Notes to Financial Statements
December 31, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities and Net Assets or Equity - Continued

6. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet And the Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$8,238,786 difference are as follows:

General Obligation Bonds Payable	\$8,225,000
Compensated Absences Payable	<u>13,786</u>
	<u>\$8,238,786</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$617,160 difference are as follows:

Capital Outlay	\$661,935
Depreciation Expense	<u>(44,775)</u>
	<u>\$617,160</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however,

CHELSEA DISTRICT LIBRARY
Notes to Financial Statements
December 31, 2004

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - Continued

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities - Continued

has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$(8,094,542) difference are as follows:

Principal Repayments	\$ 135,030
Less : Proceeds of Long Term Debt	(8,225,000)
Compensated Absences Increase	<u>(4,572)</u>
	<u><u>\$(8,094,542)</u></u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Library is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (Uniform Budgeting Act). The following is a summary of the requirements of this act:

- a. Budgets must be adopted for the General Fund.
- b. Budgets must be balanced.
- c. Budgets must be amended as necessary.
- d. Public hearings must be held prior to adoption.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget appropriation prior to being incurred.

The Library follows these procedures in establishing the budgetary data reflected in these financial statements:

1. Prior to December 1, the Library Director submits a proposed operating budget for the ensuing fiscal year commencing January 1. The Board adopts the budget at the total fund level.
2. Public hearings are conducted at the Library to obtain taxpayer comments.
3. Prior to December 31, the budgets are legally enacted at the total fund level for the General Fund.
4. Formal budgetary integration is employed as a management control device during the year for all budgetary funds.
5. Budget appropriations lapse at year end.
6. The Library does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds.
7. Budgeted amounts are reported as originally adopted, or as amended by the Library District Library Board.

CHELSEA DISTRICT LIBRARY
Notes to Financial Statements
December 31, 2004

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

B. Compliance with P.A. 621 of 1978

1. Deficit Fund Balance

The Library has no funds with accumulated fund balance deficits.

2. Excess of Expenditures Over Appropriations in Budgetary Funds

During the year ended December 31, 2004, the Library did not incur expenditures in excess of the amounts appropriated.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Under State law, the Library is permitted to invest in deposits with Michigan commercial banks, savings and loans and credit unions, obligations of the U.S. Treasury, and corporate bonds and commercial paper with certain investment grades.

Deposits (cash and certificates of deposit) are carried at cost which approximates market value. The carrying amount of deposits along with imprest cash of \$1,675 are separately displayed on the balance sheets as "Cash and Cash Equivalents".

The carrying amount of the Library's deposits with financial institutions at December 31, 2004 was \$1,003,239 and the bank balance was \$1,028,450 categorized as follows:

	<u>Bank Balance</u>
Insured by F.D.I.C.	\$ 201,668
Uninsured and Uncollateralized	<u>826,782</u>
Total	<u>\$1,028,450</u>

In accordance with GASB Statement 3, investments are classified into three categories of credit risk as follows:

Category 1: Insured or registered, or securities held by the Library's agent in the Library's name.

Category 2: Uninsured and unregistered, with securities held by the counter party's trust department or agent in the Library's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Library's name.

	<u>CATEGORY</u>			<u>Carrying</u>	<u>Fair</u>
	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>Amount</u>	<u>Value</u>
Risk categorized –					
S.L.G.S.	<u>\$ -</u>	<u>\$7,766,885</u>	<u>\$ -</u>	<u>\$7,766,885</u>	<u>\$7,766,885</u>

CHELSEA DISTRICT LIBRARY
Notes to Financial Statements
December 31, 2004

IV. DETAILED NOTES ON ALL FUNDS - Continued

B. Capital Assets

Capital asset activity for the year ended December 31, 2004 was as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not depreciated:				
Land	\$ 213,191	\$ -	\$ -	\$ 213,191
Construction in Progress	-	640,835	-	640,835
	<u>213,191</u>	<u>640,835</u>	<u>-</u>	<u>854,026</u>
Capital Assets, being depreciated:				
Building and Improvements	411,069	-	-	411,069
Equipment and Furniture	<u>361,475</u>	<u>21,100</u>	<u>-</u>	<u>382,575</u>
	<u>772,544</u>	<u>21,100</u>	<u>-</u>	<u>793,644</u>
Less: Accumulated Depreciation:				
Building and Improvements	(411,069)	-	-	(411,069)
Equipment and Furniture	<u>(199,726)</u>	<u>(44,775)</u>	<u>-</u>	<u>(244,501)</u>
	<u>(610,795)</u>	<u>(44,775)</u>	<u>-</u>	<u>(655,570)</u>
Governmental Activities Capital Assets, net	\$ <u>374,940</u>	\$ <u>617,160</u>	\$ <u>-</u>	\$ <u>992,100</u>

Depreciated expense was charged to functions of the Library as follows:

Public Library	\$ <u>44,775</u>
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CHELSEA DISTRICT LIBRARY
Notes to Financial Statements
December 31, 2004

IV. DETAILED NOTES ON ALL FUNDS - Continued

C. Long-Term Debt

The following is a summary of long-term debt transactions of the Library for the year ended December 31, 2004:

	Balance January 1,	Additions	Reductions	Balance December 31,	Balance Within 1 Year
Gov. Activities:					
G.O. Bonds	\$ -	\$ 8,225,000	\$ -	\$ 8,225,000	\$ 40,000
Installment Note	135,030	-	135,030	-	-
Comp. Absences	9,214	4,572	-	13,786	-
	<u>\$ 144,244</u>	<u>\$ 8,229,572</u>	<u>\$ 135,030</u>	<u>\$ 8,238,786</u>	<u>\$ 40,000</u>

The following is a summary of general obligation debt outstanding (excluding compensated absences) of the Library as of December 31, 2004:

	Number of Issues	Interest Rate	Maturing Through	Principal Outstanding
Governmental Activities:				
General Obligation Bonds	1	3.00%-4.65%	2024	\$ <u>8,225,000</u>

CHELSEA DISTRICT LIBRARY
Notes to Financial Statements
December 31, 2004

IV. DETAILED NOTES ON ALL FUNDS - Continued

C. Long Term Debt – Continued

The annual debt service requirements to maturity for debt outstanding as of December 31, 2004 is as follows:

<u>Year Ended</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 40,000	\$ 408,715
2006	190,000	323,402
2007	230,000	317,102
2008	265,000	309,677
2009	295,000	301,277
2010-2014	1,805,000	1,335,061
2015-2019	2,350,000	934,288
2020-2024	3,050,000	359,730
	<u>\$ 8,225,000</u>	<u>\$ 4,289,252</u>

D. Property Taxes

As of December 31, 2004 the Library was permitted to levy 1.75 mills effective with the 1999 tax roll through the 2019 roll. No revenue for the 2004 winter tax roll is recognized for the year ended December 31, 2004. Under State Law, these collections must be "deferred" and recognized as revenue in the fiscal year ending December 31, 2005.

As of December 31, 2004 the Library was permitted to levy the following taxes:

		Less:		Maximum Allowable Millage	2003 Tax Levy	Margin
<u>Source</u>	<u>Purpose</u>	<u>Date of Authorization</u>	<u>Maximum Authorized</u>	<u>Required Reductions (State Law)</u>		
Voted	Operating	10/99	1.75 mills	(.0591)	1.66905	.0609

CHELSEA DISTRICT LIBRARY
Notes to Financial Statements
December 31, 2004

V. OTHER INFORMATION

A. Employee Retirement Systems and Plans

Plan Description

The District Library does not maintain a retirement system for its employees. It does however provide a "cafeteria" type benefit arrangement where employees can choose from Code Section 457 deferred compensation "pick-up" contributions, or health insurance benefits. During the year ended December 31, 2004 the expense of these "pick-up contributions" was \$12,642.

Since the Plan assets were placed in a custodial account in accordance with changes made to IRC 457 deferred compensation plans, and the assets of the plan are for the exclusive benefit of the Library's employees, no assets or liabilities of the Plan are included in the Library's statements.

B. Building Project

On May 4, 2004 the voters of the District Library approved a proposal to allow the Library to issue \$8,225,000 in Unlimited Tax General Obligation Bonds, to partially finance renovations, equipping, expanding and furnishing the existing library building, along with site improvements. The total project cost is expected to exceed \$9.1 million, and the additional funding is expected to be accomplished with the proceeds of the District's Capital Campaign. Provided below is the status of the Campaign as of December 31, 2004:

Amounts Received-2004	<u>\$ 272,951</u>
Balance Due in Future Periods	<u>\$ 884,575</u>

The balance due in future periods has been recorded as a receivable, with an offset to deferred revenues, on the Statement of Net Assets. In addition, the District Library Board has designated \$463,148 to cover "contingencies" on the project, from unrestricted resources.

REQUIRED SUPPLEMENTARY INFORMATION

CHELSEA DISTRICT LIBRARY
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended December 31, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Revenues:				
Property Taxes	\$ 1,042,895	\$ 1,042,895	\$ 1,046,764	\$ 3,869
State Aid	6,000	6,000	12,302	6,302
Penal Fines	25,000	25,000	27,972	2,972
Circulation Fines	13,500	13,500	12,736	(764)
Charges for Services-Copier and Printer	460	460	2,744	2,284
Charges for Services-Non Resident Fees	2,000	2,000	2,074	74
Charges for Services-Other	40	40	1,982	1,942
Interest	15,000	15,000	8,426	(6,574)
Donations-Collections	-	-	512	512
Donations-Other	-	-	12,204	12,204
Donations-Capital Campaign	49,630	49,630	272,951	223,321
Other-Book Sale	-	-	5,860	5,860
Total Revenues	<u>1,154,525</u>	<u>1,154,525</u>	<u>1,406,527</u>	<u>252,002</u>
Expenditures:				
Wages	463,057	463,057	458,016	5,041
FICA	42,699	35,424	33,760	1,664
Fringe Benefits	35,424	39,770	30,919	8,851
Collection Expense	115,560	125,560	116,892	8,668
Advertising	9,700	9,700	9,583	117
Banking Fees	270	270	221	49
Board Expenses	2,790	2,790	2,508	282
Capital Campaign	49,630	51,543	31,171	20,372
Capital Outlay	34,950	24,949	19,953	4,996
Computer Upgrades	5,000	5,000	3,816	1,184
Copier	7,350	7,350	7,124	226
Insurance	11,600	21,747	17,657	4,090
Maintenance	3,500	3,500	1,710	1,790
Memberships	3,775	3,775	3,697	78
Newsletter	16,926	16,926	15,621	1,305
Postage	4,335	4,335	3,277	1,058
Printing	2,200	2,200	333	1,867
Professional Services	75,400	75,400	53,466	21,934
Program Events	19,500	19,500	16,526	2,974
Debt Service	28,750	28,750	8,590	20,160
Promotional Publication	8,695	8,695	6,782	1,913
Rent	120,579	120,579	120,576	3
Small Equipment	4,646	4,646	4,346	300
Supplies	18,000	24,500	19,094	5,406
Telecommunications	19,600	19,600	14,256	5,344
TLN Automation and Co-Op	26,289	26,289	20,169	6,120
Travel	19,400	12,183	10,503	1,680
Utilities	4,900	4,900	3,292	1,608
Total Expenditures	<u>1,154,525</u>	<u>1,162,938</u>	<u>1,033,858</u>	<u>129,080</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ <u>-</u>	\$ <u>(8,413)</u>	372,669	\$ <u>381,082</u>
Fund Balance, January 1			<u>718,363</u>	
Fund Balance, December 31			\$ <u>1,091,032</u>	

POST, SMYTHE, LUTZ AND ZIEL LLP

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February 17, 2005

Board of Trustees
Chelsea District Library
Washtenaw County, Michigan

Our audit of the financial statements of Chelsea District Library for the year ended December 31, 2004 has been completed and was conducted in accordance with generally accepted auditing standards which require that we determine that existing internal controls, accounting procedures and accounting records are adequate to allow us to express an opinion on the financial statements of the District Library. The scope of our audit is not intended to be a detailed review of all systems and procedures; therefore, this report should not be considered all inclusive.

Cash Receipts/Capital Campaign

We suggest that the Library consider some changes to the existing procedures:

- Use of a bank "lock box"-all capital campaign contributions would be mailed directly to a depository account, with posting to the capital campaign pledge records from remittance advices forwarded from the bank. The Library may wish to consider using the "lock box" for taxes, and other larger depository items.
- We suggest that the cash receipts posted in the accounting records be reconciled to the campaign records on a monthly basis.

We appreciate the courtesy extended to us by you during the course of our examination. We would be pleased to provide additional assistance if you desire.

Sincerely,


POST, SMYTHE, LUTZ AND ZIEL LLP
Certified Public Accountants